

TABLE 30. COMMUNITY AND REGIONAL DEVELOPMENT CREDIT PROGRAMS: LOAN CHARACTERISTICS FOR FISCAL YEAR 1984

Program	Interest Rate (Percent)		Term (Years)		Subsidy as a Percent of Principal
	Average Government Loan	Estimated Private Loan	Average Government Loan	Estimated Private Loan	
Direct Loans					
Rural Development Insurance Fund (RDIF) Community Facili- ties and Water and Waste	8.8	12.0	40	20	20.1
Community Development Block Grants	12.2	12.5	6	6	1.6
Rural Telephone Bank	9.5	14.6	35	15	28.3
Rehabilitation Loan Fund	4.7	15.2	15	15	38.5
SBA Disaster Loans <u>a/</u>	4.0	17.8	12.5	1	57.4
	8.0	17.8	11.75	2	42.9
Guaranteed Loans					
RDIF Indus- trial Devel- opment Fund	12.5	14.8	15	7	7.8

SOURCE: Compiled by CBO using data from Special Analysis F Tables 11 and 12 (except where noted).

a. Congressional Budget Office estimate.

dramatically from 1986 to 1987, reflecting the expiration of a cap on physical disaster lending (see Table 29). The Administration's request proposes the elimination of the Small Business Administration. Disaster loans would be reduced in 1986 to \$149 million and to zero thereafter. Over the projections period the Administration's request would reduce baseline estimates for direct loan obligations by \$5.0 billion, subsidy costs by \$2.7 billion, and outlays by \$2.5 billion.

TABLE 31. COMMUNITY AND REGIONAL DEVELOPMENT CREDIT PROGRAMS:  
IMPACT OF THE PRESIDENT'S REQUEST RELATIVE TO THE  
CBO BASELINE (By fiscal year, in millions of dollars)

President's Proposals	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Direct Loan Obligations						
Rural Development						
Insurance Fund (RDIF)	-425	-496	-517	-539	-562	-2,593
Community Development						
Block Grant--FFB	-120	-125	-131	-136	-142	-654
Rural Telephone Bank	-8	-63	-118	-173	-220	-582
Rehabilitation Loan Fund	-89	-92	-99	-106	-113	-499
Small Business Admin.						
Disaster Loans	-451	-1,069	-1,115	-1,159	1,207	-5,001
Primary Loan Guarantee Commitments						
RDIF	-157	-164	-170	-178	-185	-854
Subsidy Costs						
Direct Loans						
RDIF	-85	-100	-104	-108	-113	-510
Community Development						
Block Grant	-2	-2	-2	-2	-2	-10
Rural Telephone Bank	-2	-18	-33	-49	-62	-165
Rehabilitation Loan						
Fund	-34	-35	-38	-41	-44	-192
SBA Disaster Loans	-247	-586	-611	-635	-661	-2,740
Guaranteed Loans						
RDIF	-12	-13	-13	-14	-14	-67
Outlays						
RDIF	-7	-82	-242	-426	-504	-1,261
Community Development						
Block Grant	-12	-46	-78	-161	-162	-459
Rural Telephone Bank	-37	-52	-80	-103	-121	-393
Rehabilitation Loan Fund	-7	-72	-72	-71	-71	-293
SBA Disaster Loans	-438	-384	-650	-748	-276	-2,496

SOURCE: Congressional Budget Office.

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## FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT AND SOCIAL SERVICES

Credit programs in this function consist primarily of direct loans and loan guarantees to assist students and their families in financing college educations. In addition, loans are made to colleges and other academic institutions to finance construction of facilities. The CBO baseline estimate for direct loan obligations is \$1.1 billion in 1986, increasing to nearly \$1.2 billion by 1990. The baseline projects total loan guarantee commitments of \$9.0 billion in 1986, increasing to \$10.4 billion in 1990. Table 32 summarizes the credit activity in this function.

The Administration's budget, as estimated by CBO, requests \$857 million in 1986 new direct loan obligations, decreasing to \$600 million in 1990. New loan guarantee commitments are estimated to be \$7.6 billion in 1986, decreasing to \$6.7 billion by 1990.

### Student Financial Assistance

National direct student loans (NDSLs) are low-interest loans to assist financially needy students in pursuing postsecondary education at eligible institutions. In 1984, the NDSL average interest rate was 5 percent for a term of 13 years. OMB estimated that comparable private financing would have interest rates of 18.5 percent for a term of 5 years--a subsidy of 68.1 percent of direct loan obligations (see Table 33). The CBO baseline contains \$202 million in NDSL new direct loan obligations in 1986, rising to \$252 million in 1990. The Administration does not request any new direct loan obligations after 1985 for NDSLs, a reduction of \$1.1 billion from baseline estimates.

### Guaranteed Student Loans

The Guaranteed Student Loan (GSL) program is designed to promote the availability of commercial and other loans to students and their parents to help pay education costs. This is accomplished through the provision of federal insurance and reinsurance against borrower default and through interest subsidy payments. OMB estimated that while GSLs were made at 8 percent for a term of 14 years during 1984, comparable private loans would cost 15 percent for a term of 10 years. The subsidy was estimated to be 52 percent of the face value of the loans.

The CBO baseline estimate for new loan guarantee commitments is \$9.0 billion in 1986. Direct loan obligations used to pay claims on defaulted guaranteed student loans are estimated to be \$860 million in 1986. In its budget the Administration has proposed a number of restrictions on the GSL program: a \$4,000 per year cap on all subsidized grant and loan aid per student; a \$32,500 cap on income eligibility; and reductions in the GSL allowances to lenders. In addition, all borrowers with income below \$32,500 would be subject to a needs test. CBO estimates that GSL loan volume would fall by a total of \$15.4 billion from the baseline between 1986 and 1990 and that outlays would be reduced by \$5.2 billion between 1986 and 1990 (see Table 34). Applying the OMB subsidy estimates yields a reduction in subsidy costs of \$8.7 billion.

TABLE 32. EDUCATION ACTIVITIES CREDIT PROGRAMS BASELINE  
(By fiscal year, in millions of dollars)

Program	1984	CBO Baseline Estimates					
	Actual	1985	1986	1987	1988	1989	1990
Direct Loan Obligations							
Student Financial Assistance	169	192	202	212	225	238	252
Guaranteed Student Loans	769	937	860	865	870	880	900
College Housing	<u>40</u>	<u>40</u>	<u>41</u>	<u>43</u>	<u>44</u>	<u>46</u>	<u>47</u>
Total	979	1,169	1,103	1,120	1,139	1,164	1,199
Loan Guarantee Commitments							
Guaranteed Student Loans	7,597	8,750	9,050	9,365	9,590	9,970	10,400

SOURCE: Congressional Budget Office.

College Housing Loans

Title IV of the Housing Act of 1950 authorized loans at 3 percent interest rates to colleges and eligible hospitals for the construction and acquisition of housing facilities. The CBO baseline projects average annual new direct loan obligations of \$44 million for 1986 through 1990. The Administration is again proposing to eliminate new college housing loans after 1985.

TABLE 33. EDUCATION CREDIT PROGRAMS: LOAN CHARACTERISTICS FOR FISCAL YEAR 1984

Program	Interest Rate (Percent)		Term (Years)		Subsidy as a Percent of Principal
	Average Government Loan	Estimated Private Loan	Average Government Loan	Estimated Private Loan	
Direct Loans					
Guaranteed Student Loan Defaults	4.0	20.0	14.5	10.0	77.4
Student Finan- cial Assistance (NDSL)	5.0	18.5	13.0	5.0	68.1
College Housing	3.0	12.8	30.0	30.0	60.7
Guaranteed Loans					
Guaranteed Student Loans	8.0	15.0	14.0	10.0	52.0

SOURCE: Compiled by Congressional Budget Office using data from Special Analysis F, Table 12.

NOTE: Guarantee fees for government loans are 7.5 percent versus 13.5 percent for private loans.

TABLE 34. EDUCATION CREDIT PROGRAMS: IMPACT OF THE  
PRESIDENT'S REQUEST RELATIVE TO THE CBO  
BASELINE (By fiscal year, in millions of dollars)

Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
<b>Direct Loan Obligations</b>						
Guaranteed Student Loans--Defaults	-3	-30	-100	-130	-300	-563
<b>Primary Guarantee Commitments</b>						
Guaranteed Student Loans	-1,450	-3,315	-3,390	-3,570	-3,700	-15,425
<b>Subsidy Costs</b>						
Primary Guarantees Guaranteed Student Loans	-754	-1,724	-1,763	-1,856	-1,924	-8,021

SOURCE: Congressional Budget Office.

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## FUNCTION 550: HEALTH

Credit assistance in the health function includes loans and loan guarantees for health facilities and practitioners, health maintenance organizations, and the education and training of health care professionals. Direct loan obligations in 1985 are expected to be \$7 million, while guaranteed loan obligations are estimated at \$250 million (see Table 35).

### Health Resources

Direct loans are made by the National Health Service Corps. Half of the \$1 million obligated in each year goes to development of medical facilities in communities not receiving grant support, and half goes to help establish private medical practices in areas with a shortage of practitioners (to a maximum of \$12,500 per person). Loans are made for five years at the Treasury rate for corresponding maturities.

### Health Maintenance Organizations

The growing acceptance of health maintenance organizations (HMOs) by the investment community has made private funding increasingly available since the program's inception. Disbursals for loans are only being made for prior-year direct loan obligations. No new loans are to be obligated under this program.

### Health Professions Education Assistance Loans (HEAL)

Loans are guaranteed for graduate students in the health professions for up to \$20,000 per year, to a maximum of \$80,000 per person. Interest rates for the loans are set at the 90-day Treasury bill rate plus 3.5 percent (except for a few selected professions), and can be repaid over 25 years after a nine-month grace period following graduation. Because of a relatively high default incidence, the Administration has proposed increasing the origination fee from 2 percent to 5 percent. The Administration has also proposed making the guarantee commitment level subject to appropriation each year starting in 1986. The proposed guarantee commitment level is \$100 million per year compared with baseline estimates of \$260 million in 1986, rising to \$325 million in 1990 (see Tables 35 and 37).

TABLE 35. HEALTH CREDIT PROGRAMS BASELINE  
(By fiscal year, in millions of dollars)

Program	1984	CBO Baseline Estimates					
	Actual	1985	1986	1987	1988	1989	1990
<b>Direct Loan Obligations</b>							
Health Resources	1	1	1	1	1	1	1
Medical Facilities Guarantee and Loan Fund--Defaults	2	2	2	2	2	2	2
HMOs	2	0	0	0	0	0	0
Health Professions Education Assis- tance--Defaults	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>5</u>	<u>5</u>	<u>5</u>
Total	9	7	7	7	8	8	8
<b>Loan Guarantee Commitments</b>							
Health Professions Education Assistance	250	250	260	275	290	310	325
<b>Financing Transactions <sup>a/</sup></b>							
Medical Facilities-- Guarantees of Loan Assets Sold to FFB	0	5	0	0	0	0	0
HMOs--Guarantees of Loan Assets Sold to FFB	1	3	1	0	0	0	0

SOURCE: Congressional Budget Office.

- a. Agency loan asset sales are guaranteed by the agencies. These financing transactions are recorded as direct loans by the FFB to the agency and as guarantees of loan assets by the agency. Both transactions are for financing purposes and are not included in the direct and guaranteed loans to the public to avoid double counting.

TABLE 36. HEALTH CREDIT PROGRAMS: LOAN CHARACTERISTICS FOR FISCAL YEAR 1984

Program	Interest Rate (Percent)		Term (Years)		Subsidy as a Percent of Principal
	Average Government Loan	Estimated Private Loan	Average Government Loan	Estimated Private Loan	
Guaranteed Loans					
Health Professions					
Education					
Assistance	13.2	15	16.3	10	48

SOURCE: Compiled by the Congressional Budget Office using data from Special Analysis F, Table 12.

NOTE: Guarantee fees for government loans are 2 percent versus 13.5 percent for private loans.

TABLE 37. HEALTH CREDIT PROGRAMS: IMPACT OF THE  
PRESIDENT'S REQUEST RELATIVE TO THE CBO  
BASELINE (By fiscal year, in millions of dollars)

President's Proposals	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Primary Guarantee Commitments						
Health Professions						
Education Assistance	-160	-175	-190	-210	-225	-960
Subsidy Costs						
Health Professions						
Education Assistance	-77	-175	-91	-101	-108	-552

SOURCE: Congressional Budget Office.

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FUNCTION 600: INCOME SECURITY

Credit assistance in the income security function is primarily for housing. Local public housing authorities (PHAs) are assisted in the construction of low-rent public housing, and interest-free direct loans are provided to nonprofit organizations planning to build subsidized housing for low-income, elderly, and handicapped tenants. The Pension Benefit Guaranty Corporation also administers direct loan assistance to companies to prevent the loss of pension benefits to participants if pension plans are terminated or are otherwise unable to pay insured benefits. Table 38 illustrates the lending activity in this function.

Low-Rent Public Housing

This program provides federal credit assistance for the construction, acquisition, or modernization of public housing projects by PHAs. Before 1984, the federal government provided direct loans to finance the early stages of construction and then guaranteed tax-exempt state and local bonds to finance the projects permanently. The notes are ultimately repaid from federal rental assistance payments. Because of federal repayment, loans bear little risk. OMB estimated a subsidy cost of 3 percent in 1984.

The 1985 base for direct loans includes a one-time disbursement of \$13 billion for the conversion of financing for low-rent public housing from guaranteed tax-exempt state and local notes to direct federal loans. CBO projects total obligations of \$8.8 billion from 1986 through 1990. The Administration proposes to phase the program out beginning in 1987. From 1987 through 1990, obligations would be reduced by \$4.3 billion.

TABLE 38. INCOME SECURITY CREDIT PROGRAMS BASELINE  
(By fiscal year, in millions of dollars)

Program	1984	CBO Baseline Estimates					
	Actual	1985	1986	1987	1988	1989	1990
<b>Direct Loan Obligations</b>							
<b>Direct Loans</b>							
Low-Rent Public Housing	1,413	14,303	1,822	2,292	1,755	1,487	1,445
Non-profit Sponsor Assistance	1	2	2	2	2	2	2
Pension Benefit Guaranty Corporation	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total	1,414	14,306	1,825	2,295	1,759	1,490	1,449
<b>Loan Guarantee Commitments</b>							
Low-Rent Public Housing	13,723	---	---	---	---	---	---

SOURCE: Congressional Budget Office.

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FUNCTION 700: VETERANS' BENEFITS AND SERVICES

Credit assistance to veterans includes direct loans in the form of borrowing against the cash value of life insurance policies, for educational purposes, and loans and guarantees by the Veterans Administration (VA) to purchase homes. The CBO baseline projection for new direct loan obligations is \$1.3 billion in 1986, decreasing to \$800 million in 1990. For new loan guarantee commitments, CBO projects \$17.6 billion increasing to \$24.9 billion over the same period (see Table 39).

VA Education Loan Fund

Legislation has been proposed to repeal the authority to make education direct loans to veterans because of the excessively high default rates of the program (greater than 70 percent). Baseline obligations are less than \$100,000 in each of the next five years.

VA Loan Guaranty Revolving Fund

The Veterans Administration insures or guarantees the purchase or construction of homes for veterans (see Table 40 for details on interest rates and terms of these loans). The President has proposed to increase the origination fee charged by VA from 1 percent to 5 percent of the full principal of a VA-guaranteed mortgage. CBO projects that the higher fee value would decrease the number of new loan originations by 20 percent, and the dollar value of loan guarantees by 6 percent below baseline estimates for the five-year period. In addition, as most fees would be financed rather than paid in lump sum up front, there would be an increase in the length of time during which mortgagors would have no equity in the properties. For this reason, both defaults and vendee loans would increase over baseline projections by an estimated \$36 million in 1987, rising by an additional \$894 million by 1990 (see Table 41). The average default costs to the VA would also rise by 5 percent because the fee would be financed as part of the mortgage principal.

The net impact of these proposed changes could be outlays that are actually higher in 1990 than would be expected under current law.

TABLE 39. VETERANS' CREDIT PROGRAMS BASELINE  
(By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates					
		1985	1986	1987	1988	1989	1990
Direct Loan Obligations							
Insurance Programs (All)	131	150	156	162	168	174	180
Vocational Rehabilitation Revolving Fund	1	1	1	1	1	1	1
Educational Loans	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>
Direct Loan Revolving Fund	1	1	1	1	1	1	1
Loan Guaranty Revolving Fund	<u>1,137</u>	<u>1,151</u>	<u>1,154</u>	<u>1,052</u>	<u>922</u>	<u>740</u>	<u>620</u>
Total	1,270	1,303	1,312	1,216	1,092	916	801
Loan Guarantee Commitments							
Loan guaranty Revolving Fund	16,465	16,778	17,642	18,757	20,891	23,899	24,921

SOURCE: Congressional Budget Office.

a. Less than \$100,000.

TABLE 40. VETERANS' CREDIT PROGRAMS: LOAN  
CHARACTERISTICS FOR FISCAL YEAR 1984

Program	Interest Rate (Percent)		Term (Years)		Subsidy as a Percent of Principal
	Average Government Loan	Estimated Private Loan	Average Government Loan	Estimated Private Loan	
Direct Loans					
Loan Guaranty Revolving Fund					
Vendee and acquired loans	13.0	14.0	30	30	9.7
National Service Life Insurance	11.0	13.2	4	4	4.1
Guaranteed Loans					
Loan Guaranty Revolving Fund	13.0	14.5	30	30	9.0

SOURCE: Compiled by Congressional Budget Office using data from Special Analysis F, Tables 11 and 12.

TABLE 41. VETERANS' CREDIT PROGRAMS: IMPACT OF THE PRESIDENT'S REQUEST RELATIVE TO THE CBO BASELINE (By fiscal year, in millions of dollars)

Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
<b>Direct Loan Obligations</b>						
Loan Guaranty Revolving Fund	-2	36	230	549	894	1,707
<b>Primary Guarantee Commitment</b>						
Loan Guaranty Revolving Fund	-3,460	-2,071	-1,402	-410	863	-6,480
<b>Subsidy Costs</b>						
Direct Loans						
Loan Guaranty Revolving Fund	-0.2	3	22	53	87	163
Guaranteed Loans						
Loan Guaranty Revolving Fund	-1,559	-1,655	-1,841	-2,104	-2,191	-9,185
<b>Outlays</b>						
Loan Guaranty Revolving Fund	-514	-517	-357	-180	10	-1,558

SOURCE: Congressional Budget Office.

## FUNCTION 800: GENERAL GOVERNMENT

Neither the CBO baseline nor the Administration projects any new loan guarantee commitments in this function. The function previously contained two loan guarantee programs: loans to the U.S. territories of Guam and the Virgin Islands, and General Services Administration (GSA) loans for lease-purchase agreements on some federal buildings. The loan guarantees have been financed through the Federal Financing Bank as off-budget direct loans. In 1982, \$12 million in new loan guarantees was committed for the GSA program.

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 FUNCTION 850: GENERAL PURPOSE FISCAL ASSISTANCE
 

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No new lending is anticipated in function 850 after 1984 (see Table 42). Credit assistance in this function consisted of direct loans from the U.S. Treasury to the District of Columbia for capital projects. In 1984, the District sold general obligation bonds, which were the first long-term bonds issued that were not backed by the U.S. Treasury. The District is expected to continue to finance its capital needs directly through the bond market.

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TABLE 42. GENERAL PURPOSE CREDIT PROGRAMS BASELINE  
(By fiscal year, in millions of dollars)

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Program	1984	CBO Baseline Estimates					
	Actual	1985	1986	1987	1988	1989	1990

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<b>Direct Loans</b>							
District of Columbia capital projects	115	--	--	--	--	--	--

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